

LBX Weekly Update #6: While Retail Recovers, Will Our Behaviors Change Permanently?



MARKET COMMENTARY

APRIL 27, 2020

Retailers And Consumers Are Cautious Despite Slate Of Southern US Reopening Announcements Consumer Values Likely To Prioritize Health, Safety And Cleanliness Going Forward

Dear Investor,

We hope this message finds everyone healthy and safe. This week, we will provide a brief portfolio update, discuss South Carolina's, Georgia's and Tennessee's reopening measures and their potential impact on our portfolio, and take a brief look at how COVID-19 may impact consumer habits and behaviors. Please see below:

Portfolio Update: Rent Collections and Lender Forbearance

- **April Collections Tick Up Slightly, From 62.3% to 63.5%**

April collections continue to trickle in and rose 1.2% week-over-week to 63.5% for April. Next week we will begin reporting May collections, which we expect to decline sharply because approximately 68% of our potential monthly collections come from non-essential, restaurant, and/or local retailers. Additionally, more than half of our tenants (50.5%) have requested some form of rent relief and we are engaged in active rent relief negotiations across our portfolio.

- **Status of Rent Deferrals and Forbearances**

As noted last week, we have offered up to sixty days of rent relief to tenants, paid back over a defined period of time, and lease amendments are being negotiated with tenants. The national tenants who have requested relief generally require more complicated agreements than the locals and those discussions are ongoing. In all circumstances we are taking a close look at any restrictions or exclusivities in our leases and making sure these limitations are reduced or eliminated to our benefit as part of these deferral negotiations and amendments. In addition, we are attempting in certain instances to add term to our leases in an effort to add value to our assets whenever normal operations return.

Simultaneously, as we noted last week, we are having ongoing mortgage relief discussions with several of our lenders. Outside of Chapel Hill (where we recently refinanced and structured for delayed payments of principal and interest) and Colony Plaza and Oakbrook (where we have not yet needed lender help), we are negotiating 90-day forbearance agreements with all the other lenders. Broad forbearance terms have been agreed at all properties but we continue to iron out details. These discussions have all been constructive and friendly and we expect positive conclusions to come out of all of them. These agreements take several weeks to fully negotiate and we will provide investors with more concrete detail once they are finalized.

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GA, TN, And SC Are Reopening For Business, But It's Not As Simple As Flipping A Switch

Last week, GA, TN and SC announced that certain non-essential retailers could reopen their doors. This impacts five of our properties: Oakwood (TN), North Rivers (SC), Oakbrook (SC), Chapel Hill (GA), and Colony (GA). It may also impact Harbison (in Columbia, SC), though Columbia is still under a separate city-wide stay-at-home mandate that likely supersedes any state mandate.

Shortly following the announcement, [The Wall Street Journal \(Subscription Required\)](#) highlighted that many national retailers are not rushing to open back up just yet. Many are planning phased reopenings based on a combination of state and local guidelines, health data, and installation of protective equipment. Separately, McKinsey surveyed 98 retail executives and their main findings were that significant logistical work is still required (see charts below). Employees and customers need to be healthy, comfortable and safe, and strategies still need to be developed before retailers are ready to reopen their stores.

Where permitted in the short-term, we do expect local mom-and-pop retailers to reopen more quickly out of necessity. We are actively monitoring our assets to see which tenants have reopened, and will report on their activities next week.

Reopening Plan Readiness (% of Respondents)



Source: McKinsey

Retailers Are Considering A Range Of Different Measures To Promote Customer And Employee Safety

Action	Overall ²	Apparel	Department stores/off-price	Beauty	Specialty – Big box	Specialty - Small box
Increased store cleanings	90%	92%	100%	90%	86%	95%
Mandatory distance between customers	54%	50%	50%	20%	71%	20%
Limit # of customers in stores	49%	74%	31%	30%	36%	40%
Mandating employees wear personal protective equipment (e.g., gloves, masks)	34%	45%	25%	30%	29%	25%
Temperature check for associates	24%	24%	25%	10%	29%	20%
Sneeze guards / plexi-glass at checkout	22%	21%	31%	0%	29%	0%
Limited fitting room availability	21%	29%	19%	0%	21%	10%
Dedicated hours for seniors and at-risk customers	15%	13%	13%	0%	21%	15%
Fixed batch store associate scheduling	14%	8%	25%	0%	21%	0%
No product testing / no try-on	11%	5%	19%	40%	7%	5%
Product testing / try on only if assisted by an associate	4%	8%	6%	10%	0%	0%
Temperature check for customers	3%	0%	0%	0%	7%	5%

Source: McKinsey

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Impact on Consumer Habits

On a JLL conference call last week, Emily Miller, a VP of Strategy from Big Red Rooster (a JLL company), pointed out that consumers are currently going through “unprecedented behavioral change at scale.” As states and stores gradually reopen in the coming weeks and months, people and businesses will be strained financially and consumer preferences will be dominated by social distancing and personal safety requirements. Over the longer term, there are open questions about the psychological impacts of the pandemic and how consumer behaviors and preferences will change. Harris, a leading polling organization, has been publicizing statistics and insights into the American COVID-19 consumer:

Pandemic Statistics

Two-thirds of Americans only have enough savings to last up to six months without a job	56% of workers say they are working more now than they were in the office – and they are re-thinking their assumptions about work/life/shopping/living	At the same time, Americans are very willing to <u>sacrifice privacy and freedom for safety</u> when businesses reopen
<u>Dining out at a restaurant</u> is the #1 missed social activity	<u>Spending for a vacation</u> is the #1 major planned purchase once businesses reopen	Consumers are ready to return to dining much more quickly, while <u>traveling or attending a sporting event</u> will take some time

Source: Harris Polls

Last week, we turned to Dan Fukushima, a consultant with [Toffler Associates](#), a leading future-focused strategic advisory firm. Dan has been working with organizations to identify, plan for and capitalize on growth opportunities for more than three decades, and he provided us with in-depth insights into how he sees consumers and the retail industry potentially evolving in response to COVID-19. A full transcript of the interview will be posted to our website at [lbxinvestments.com](#) later this week but he said, “When we’re in this big grey zone of where we’re not on total lockdown but we don’t have the vaccines, therapies or herd immunity to go back to completely open, **that’s the period when a lot of social distancing-related behaviors are going to get burned in.** People may feel the strict lockdown period isn’t ‘normal’ and that they’ll go back to how things were when it’s over; however, the long duration of the grey period, cycles of stricter and looser policies, will make that time feel more ‘normal,’ which will be when new behaviors will really become lasting habits.”

We discussed the following themes:

- **Consumer values will include health, safety, and cleanliness**
 - Will impact product purchase patterns and priorities
 - Will impact household supply levels (more safety stock)
- **Consumers will feel vulnerabilities and respond by recognizing and fortifying their own “household critical infrastructure”**
 - Items like food, water, medical supplies, protective devices
 - Home improvements like renewable energy systems and whole-home batteries
 - Enabling work/school from home with appropriate bandwidth and locations (e.g., home “studios”)
- **Over time, large scale remote working could reverse the urbanization trend (people don’t have to be near their jobs)**
 - Leads to suburb and exurb growth
 - Leads to more permanent residents in resort and remote locations (if location link to job is broken)
- **Supply chain diversification may lead to repatriation of manufacturing**
 - Manufacturing will come back to the US but not necessarily old locations (e.g., rust belt) but locations optimized for low cost renewable energy, skilled workforce, distribution, etc.
 - Types of manufacturing will likely be advanced manufacturing, additive manufacturing, and other types of autonomous manufacturing
 - This will help restore some more remote communities and bring back a little more of a middle class (although not likely the same volume as pre-offshoring)

We expect to release the interview mid-week.

Coming Up

Next week, we will release initial May collections statistics. In the meantime, please contact us with any questions.

Sincerely,
Rob Levy, Phil Block and Heath Binder